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TAGS: EAGR ETRD ECON NU
SUBJECT: NICARAGUAN GOVERNMENT LOOKS TO MARKET TO SUPPLY RED BEANS

Summary

¶1. (U) The retail price of red beans, a staple in Nicaragua along with rice and corn, has tripled this year, increasing to $0.97/pound in some local markets from $0.32/pound in January. Adverse weather conditions have damaged two successive crops and are playing havoc with the market. Pre-existing export commitments to El Salvador are also a factor. Instead of draconian measures advocated by some, the Nicaraguan Government is apparently first looking toward a market-based solution, announcing on October 18 that a 30% tariff on beans would be removed for three months to encourage imports. Post has alerted the U.S. Dry Bean Council of this potential export opportunity. End Summary.

Beans Triple in Price

¶2. (U) The retail price of red beans, a staple in Nicaragua along with rice and corn, has tripled this year, increasing to $0.97/pound in some local markets -- up from $0.65/pound in early October and $0.32/pound in January. Media have dedicated significant attention to rising prices and, in true Nicaraguan fashion, rushed to report rumors as to the cause of the "bean shortage." Some reporters speculate that unscrupulous traders are hording beans to drive up prices. Others criticize President Ortega for exporting beans to Venezuela in exchange for fertilizer. The truth has far more to do with Mother Nature.

Unusual Rains Affect Plantings

¶3. (U) Since Hurricane Felix struck Nicaragua in September, the rain has not stopped in the western regions of the country, where most of the red beans are grown. Normally, farmers count on two plantings, with a third possible in areas subject to irrigation or additional rainfall. The first season begins in May when the first rains come. This year, however, May was unusually dry, so farmers delayed their planting until June, pushing back the harvest of the first crop to August.

¶4. (U) This delay meant that the second crop of the year was not sown until September, shortly before Hurricane Felix struck the Atlantic coast and subsequently northern Nicaragua. Felix was followed by unusually constant rains, causing extensive flooding and crop damage throughout the country's bean growing region. What remains of the second crop will not be ready for harvest until late November. Until then, Nicaragua will continue to experience a shortage of supply.

¶5. (U) Unfortunately, the situation is complicated by pre-existing contracts for export and strong seasonal demand as large farmers buy staples to feed workers that they hire to harvest coffee and sugar. Moreover, farmers looking to plant a third crop will likely find seeds in short supply, as beans that would have been treated and offered as seeds are being sold for human consumption as prices for the food staple soar.

Salvadoran Demand a Factor

¶6. (U) Nicaraguan exports of red beans have steadily increased in recent years. In 2006, the Ministry of Agriculture, Fisheries, and Forestry (MAGFOR) estimated that farmers grew 430 million pounds of red beans, enough to supply local demand and export more than a quarter of production. During the first nine months of 2007, exports totaled 109 million pounds ($34.1 million), up from 96 million pounds ($29.8 million) during the first nine months of 2006. El Salvador has become Nicaragua's most important export market for red beans, with many buyers there willing to finance and sign forward contracts with Nicaraguan farmers to ensure supply.

Government Looks for a Market-Based Solution

¶7. (U) Government officials are under pressure to lower red bean prices for local consumers. Options under discussion in some government and FSLN party circles include imposing export controls, fixing domestic prices, and reviving a national marketing board to ensure local supply, all draconian measures characteristic of economic policy during Ortega's presidency in the 1980s. Commodity traders believe either solution would produce equally disastrous results today.

¶8. (U) Minister of Trade, Industry, and Development (MIFIC) Orlando Solorzano has publicly stated that the government would first seek a market-based solution to the shortage of supply. On October 18, MIFIC and MAGFOR published a joint decree that removes the 30% tariff on red bean imports for a three-month period. Meanwhile, the U.N. Food and Agriculture Organization is coordinating an effort to obtain international assistance for the purchase of $3 million worth of seeds (red beans and white corn) for the third planting season. Post has alerted the U.S. Dry Bean Council of potential export opportunities in Nicaragua.

Comment

¶9. (SBU) Fortunately, the government is first turning toward the market instead of intervention to relieve the temporary shortage in supply of this staple. The result should be far more effective, as market incentives for Nicaraguan farmers to increase acreage in the coming year will remain. Minister Solorzano's decision provides concrete evidence that he supports free-markets and trade, and that he is able to successfully argue that solution within government circles.

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